

## Message Text

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ACTION NEA-10

INFO OCT-01 IO-13 ISO-00 AF-10 AID-05 CIAE-00 COME-00  
EB-08 FRB-03 INR-10 NSAE-00 ICA-11 XMB-02 OPIC-03  
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R 301155Z APR 78 ZFG  
FM AMEMBASSY ABU DHABI  
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INFO AMEMBASSY ALGIERS  
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AMEMBASSY DAMASCUS  
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AMEMBASSY KHARTOUM  
AMEMBASSY KUWAIT  
AMEMBASSY MANAMA  
AMEMBASSY MOGADISCIO  
AMEMBASSY MUSCAT  
AMEMBASSY NOUAKCHOTT  
AMEMBASSY SANA  
AMEMBASSY TRIPOLI  
AMEMBASSY RABAT  
AMEMBASSY TUNIS  
USINT BAGHDAD  
USDEPT TREASURY WAHDC

C O N F I D E N T I A L ABU DHABI 1192

.O. 11652: GDS  
TAGS: EFIN, TC  
SUBJ: ARAM MONETARY FUND 1978 ANNUAL MEETING IN ABU DHABI

REF: ABU DHABI 481  
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SUMMARY: SECOND ANNUAL MEETING OF ARAB MONETARY FUND BOARD OF  
GOVERNORS IN ABU DHABI HAS APPROVED FIRST YEAR'S ACTIVITIES  
AND SET OUT PLANS FOR NEXT YEAR. IT HAS AUTHORIZED COMMENCE-  
MENT OF BOP SUPPORT LOANS, AUGMENTATION OF PAID IN CAPITAL BY  
ABOUT 200 MILLION DOLLARS AND THE FUND'S RECOURSE TO INTER-  
NATIONAL MARKETS TO BORROW. FIRST BOP SUPPORT LOANS ARE

LIKELY TO ISSUE BY MID-SUMMER. WHILE SOME ORGANIZATIONAL STRESSES EXIST, AMF ACTIVITY SEEMS TO HAVE FAVORABLY IMPRESSED GOVERNORS AND SET STAGE FOR FURTHER DEVELOPMENT OF INSTITUTION.  
END SUMMARY

1. THE ARAB MONETARY FUND BOARD OF GOVERNORS HELD ITS SECOND ANNUAL MEETING IN ABU DHABI APRIL 25-26, REVIEWING THE FUND'S FIRST YEAR OF ACTIVITY. THEY APPROVED THE OPERATING GUIDELINES PROPOSED BY THE BOARD OF DIRECTORS WHICH SET UP PROCEDURES SIMILAR TO AND ABOUT AS STIFF AS IMF CRITERIA (REFTEL). THEY URGED COUNTRIES WHICH HAVE NOT PAID IN THEIR QUOTA TO DO SO ASAP (NAMELY, SUDAN). AFTER SOME DISCUSSION OF THE STATUS OF "PALESTINE", IT WAS DECIDED THAT "PALESTINE" WOULD BE EXEMPT FROM PAYING ITS QUOTA UNTIL IT COULD BENEFIT FROM THE FUND'S ACTIVITIES.

2. MEETING ALSO SET OUT PLANS FOR NEXT YEAR'S WORK. GOVERNORS WHO ARE PRINCIPALLY ARAB MINISTERS OF FINANCE URGED AMF TO BEGIN TO MAKE LOANS AS SOON AS PRACTICAL. FIRST LOANS ARE LIKELY TO BE CONSIDERED BY JULY. THESE WILL BE TO DEFICIT COUNTRIES WHO CAN DRAW DOWN 75 PERCENT OF THEIR QUOTA AUTOMATICALLY PAYING 4 PERCENT INTEREST. FUND MANAGEMENT EXPECTS THAT EGYPT, SUDAN, SOMALIA, MAURITANIA, AND PERHAPS, SYRIA WILL AVAIL THEMSELVES OF THIS OPPORTUNITY RELATIVELY QUICKLY.

3. CURRENT PAID-IN CAPITAL IS ABOUT 220 MILLION DOLLARS OUT  
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OF AUTHORIZED APPROXIMATELY 860 MILLION DOLLARS. AN ADDITIONAL PAYMENT OF ABOUT 200 MILLION DOLLARS CAPITAL WAS REQUESTED BY THE END OF MAY, 1979 ON THE CONDITION THAT 100 MILLION DOLLARS BE OUT ON LOAN BY THAT TIME. SEVERAL COUNTRIES PROPOSED THAT ALL THE CAPITAL BE PAID IN NOW, BUT CAUTIOUS GULF STATES PREFERRED TO SEE HOW FUND WOULD MANAGE WHAT IT HAS ON HAND.

4. THE FUND WAS AUTHORIZED TO AUGMENT ITS LOANING CAPACITY BY BORROWING IN INTERNATIONAL MARKETS (IT CAN ALSO ISSUE GUARANTEES FOR LOANS WHICH MEMBER STATES OBTAIN IN THE INTERNATIONAL MARKET-PLACE). ALTHOUGH NO RESTRICTION WAS PLACED ON EITHER MARKET LOCATION OR CURRENCY DENOMINATION, A PREFERENCE WAS SUGGESTED FOR ARAB MARKETS AND THE STILL FIGMENTARY ARAB DINAR, IF NO MORE EXPENSIVE THAN ALTERNATIVE SOURCES. ACCORDING TO THE FUND OFFICIALS, THE AUTHORIZATION TO BORROW WAS MEANT AS AN EXPRESSION OF FAITH IN THE FUND RATHER THAN AN ENCOURAGEMENT TO BORROW IN THE NEAR FUTURE. THEY POINTED OUT THAT GIVEN MARKET INTEREST RATES, IT MADE NO SENSE TO BORROW UNTIL ALL THE CAPITAL WAS PAID IN AND IN USE. IT IS LIKELY THAT GUARANTEES OF LOANS TO MEMBER STATES WILL BE UTILIZED BEFORE AMF BORROWING COMES IN TO PLAY.

5. THE FUND IS UNDERGOING ORGANIZATIONAL STRESS INEVITABLE IN ANY NEW INSTITUTION ESPECIALLY ONE ENCOMPASSING EXTREMES SUCH AS THE PLO, SYRIA, IRAQ AND THE CONSERVATIVE STATES OF THE ARABIAN PENINSULA. ADDITIONALLY, A CERTAIN BUREAUCRATIC POWER STRUGGLE IS LIKELY BETWEEN THE STRONG-WILLED MANAGING DIRECTOR, FORMER IRAQI PLANNING MINISTER JAWAD HASHIM, AND THE POWERFUL BOARD OF EXECUTIVE DIRECTORS WHO LARGELY DETERMIN AMF ACTIONS. THE FIRST SKIRMISH BETWEEN THEM WAS FOUGHT IN A CLOSED SESSION AT THE MEETING. THE EIGHT EXECUTIVE DIRECTORS COST ABOUT 2 MILLION DOLLARS A YEAR IN SALARIES AND ADMINISTRATIVE EXPENSES AND SOME STATES QUESTIONED THE NEED FOR THEIR FULL TIME PRESENCE IN ABU DHABI. THIS ATTEMPT TO DOWNGRADE THE EXECUTIVE DIRECTORS WAS NOT SUCCESSFUL BUT LEFT SOME BRUISED FEELINGS. AS AMF BEGINS TO OPERATE, EXECUTIVE DIRECTORS WILL BE MUCH MORE INVOLVED IN SUBSTANTIVE DISCUSSION MAKING CONFIDENTIAL

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SO THAT THEIR COST SHOULD BE LESS OF AN ISSUE IN FUTURE.

6. THE MEETING ALSO AUTHORIZED A FEASIBILITY STUDY CONCERNING THE ESTABLISHMENT OF BRANCH OFFICE IN MOROCCO OR ELSEWHERE. NO CONCRETE REASON WAS ADDUCED IN SUPPORT OF THE NEED FOR ANOTHER OFFICE OF THE FUND AND THE ADOPTION OF THIS RESOLUTION PRINCIPALLY REFLECTS MOROCCAN LOBBYING AND DISCONTINT WITH THE HIGH COST OF DOING BUSINESS IN ABU DHBI. THE NEXT MEETING OF THE BOARD OF GOVERNORS WILL BE IN SPRING 1979 AT AN AS YET UNDETERMIFED SITE. SOME SENTIMENT EXISTS AMONG THE PERIPATETIC ARAB FINANCE OFFICIALS TO END THEIR TRAVELS TO ANNUAL MEETINGS OF THE ISLAMIC DEVELOPMENT AND AMF IN RIYADH, KUWAIT AND ABU DHBI. FOR THESE REGIONAL ORIGANIZATIONAL MEETINGS, THEY ARE LIKELY TO CONSIDER SOME ALTERNATIVES WHICH WOULD PLACE SOME OF THE MEETINGS ON SUCCESSIVE DAYS IN THE SAME CITY NEXT YEAR.

7. COMMENT: IN AUTHORIZING THAT HALF OF THE CAPITAL BE PAID IN WITHIN THE FIRST TWO YEARS OF OPERATION, THE GOVERNORS HAVE GIVEN A VOTE OF CONFIDENCE TO THE AMF. TO THE EXTENT THAT THE EMBASSY CAN JUDGE THE AMF'S PERFORMANCE, WE AGREE THAT THE RIGHT NOTE AND DIRECTION SEEM TO HAVE BEEN STRUCK IN THIS FIRST YEAR OF OPERATION. THE AMF LEADERSHIP HAS EXPRESSED THE WISH TO FOCUS ON ECONOMICS, NOT POLITICS, CREATING AN ORGANIZATION MODELED AFTER THE IMF, NOT THE ARAB LEAGUE. IF EVENTS PERMIT THEM TO STICK TO THIS RESOLUTION, THEIR DILIGENT AND PROFESSIONAL EFFORTS AT INSTITUTION-BUILDING MAY BEAR USEFUL FRUIT.  
DICKMAN

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**Disposition Approved on Date:**  
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**Disposition Date:** 20 Mar 2014  
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**Review Release Event:** n/a  
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**Status:** NATIVE  
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**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014